



CITY OF HUNTINGTON BEACH

Finance Board

TO: The City Council

CC: Fred A. Wilson, City Administrator

FROM: Finance Board

DATE: January 20, 2010

**SUBJECT: SUBMITTAL OF FINANCE BOARD ANNUAL REPORT,
CALENDAR YEAR 2009**

The City Council created the Finance Board in 1993 to “act in an advisory capacity to the City Council in matters pertaining to financial planning.” One duty of your Finance Board is to prepare an Annual Report to the City Council. This report is intended for that purpose.

Charles Falzon
Chairman, Finance Board

Frank LoGrasso, Vice Chairman

Members:
Tom Corkett
Steve Garcia
T. Gabe Houston
Bob Jones
Stephen King

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INTRODUCTION/OVERVIEW OF 2009

The year 2009 proved to be fiscally challenging for the City of Huntington Beach, as it was for most cities. Our fiscal year 2008/09 revised budget of \$208M was reduced by over \$20M in response to decreases in various revenue sources as a result of the economic recession affecting the local, state, and national economies. And, while our adopted FY 2009/10 is balanced, challenges exist this year and in succeeding years.

Helping the City Council manage the budget through the fiscal challenges of 2009 were our new (April 2009) Director of Finance, Bob Wingenroth, and our fairly new (September 2008) City Administrator, Fred A. Wilson.

As the Finance Board has done in prior years, we started 2009 with a Joint Study Session with the City Council to review the Board's 2008 activities and to establish Board priorities for 2009. Our activities during 2009, as described below, followed the priorities set at the start of the year and also included items from our regular calendar of activities.

CITY COUNCIL/FINANCE BOARD JOINT STUDY SESSION – FEBRUARY 2, 2009

The City Council and the Finance Board held a joint Study Session on February 2, 2009. The general consensus of the Council was that the Finance Board should concentrate on helping the City to achieve short-term financial stability given the worsening national, state, and local economies.

To this end, the Board was involved in several tasks during 2009 including:

1. Reviewing and commenting on Staff's proposed changes to the Long Term Financial Plan.
2. Reviewing and commenting of Staff's proposed changes to City Financial Reserve Policies.
3. Creating a list of suggestions to reduce expenditures.
4. Monitoring the City's budget—impacted by the economic recession and by State actions.
5. Monitoring progress of the Cost Allocation and Fee Study.

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1. Long Term Financial Plan

The overriding priority for 2009 was the City's short-term financial stability given the increased volatility of various revenue sources in light of the federal, state, and local economic recession. The City took several actions to attempt to adjust expenditures to match revenues for FY 2008/09:

- a. Implementing and maintaining a hiring freeze
- b. Delaying the purchase of equipment and capital
- c. Significant operating reductions from all departments
- d. The sale of the Emerald Cove property

Even with these efforts, expenditures for the FY 2008/09 are expected to exceed revenues by approximately five million dollars—about a 3% difference. This difference will be funded by using the City's financial reserves. The adopted budget for FY 2009/10 anticipates continuing most expense reduction efforts listed above and further reducing expenditures to bring the adopted budget in balance (matching expenditures to revenues). Even so, at this writing, the City continues to monitor issues that are expected to have an impact on revenue estimates in the adopted FY 2009/10 budget.

On September 21, 2009, Director of Finance Bob Wingenroth presented an updated Five Year Financial Plan to the City Council. The Finance Board had reviewed this updated plan and we are in agreement with its Approach, Assumptions and estimates for Revenues and Expenditures.

The Approach developed low, mid and high range assumptions for each component of Revenue and Expense. Assumptions for the mid-range Revenue growth (General Fund) were -0.8%, 0.64%, 1.3%, 1.77%, and 2.25% over the next five years, respectively. The Board agrees with these fiscally conservative Assumptions.

The Assumptions for Expenditures for the mid-range estimate (Scenario 1) include (a) no additional salary/benefit increases, (b) at least seventy vacancies, (c) additional attrition of 10 positions per year and (d) 2% Operating and Capital expenditure growth per year. The primary increase in Expenditures over the next several fiscal years is the expected growth in CALPERS expenditures.

The net result of the updated Five Year Financial plan, when assuming mid-range Revenues and Expenditures, is an estimated budget shortfall of \$5M, \$7M, \$8M, \$9 M, and \$6M for the fiscal years 2010/11 through 2014/15, respectively.

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Of course, predicting our financial future is filled with risk, but the Board strongly believes in the value of a Financial Plan. We urge the Council to continue to work with staff to (a) closely monitor the City's actual FY 2009/10 revenues and expenditures, (b) monitor State actions that can impact City finances, (c) monitor the impact of expenditure reductions on the City's infrastructure, (d) begin taking steps to address the anticipated annual budget shortfalls mentioned above, and (e) be prepared to address any further deterioration in our financial situation.

2. Financial Reserve Policies

In early 2009, Staff proposed changes to the City's Financial Policies involving financial reserves. When the Board reviewed a draft of the proposed changes, we detected a weakening of the policies for funding infrastructure. Our concerns were echoed by the City Council when the proposed changes went before the Council.

We agree with the final draft of the proposed changes, which was adopted with the FY 2009/10 budget in September of 2009. In summary, the changes (a) combined the Second Tier Reserve and the Economic Uncertainties Reserve into a single Economics Uncertainties Reserve, (b) established a goal for the amount of the Reserve, and (c) established the goal of replenishing any expenditure from the Reserve within three years.

3. Finance Board Suggestions to Reduce Expenditures

In early 2009, the City Administrator asked the Finance Board for suggestions to reduce expenditures (see Exhibit A), given the economic recession. At about this same time, the City Administrator also asked City employees for suggestions. When both lists were compared, some suggestions were common to both lists. The Board continues to support our suggestions and encourage their consideration.

Also in 2009, the City implemented, on a pilot basis, a Finance Board recommendation from several years ago related to market rate wages on selected City expenditures such as Street Sweeping. We hope this pilot proves successful and that resulting savings can be applied to other City needs.

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4. Monitor the City's Budget

The economic recession emphasized the need to closely monitor the City's revenue and expenditures, particularly for the General Fund. The Finance Board receives a monthly financial report from Staff that shows General Fund revenue (by component of revenue) and expenditures by Department. The City Council receives this same report. The Board reviews this report at our monthly meeting and we ask questions of Staff to help us better understand the details within the report.

5. Cost Allocation and Fee Study

In 2009, the City concluded their most recent Cost Allocation and Fee Study. This Study is used to assist the Council in establishing and adjusting fees that are charged by the City for various services. The current effort was started during the summer of 2008 but was not completed until 2009 for two primary reasons. First, a concurrent fee study was underway focusing on citywide and downtown/beach specific parking fees. Merging the results and timelines of these two studies proved too cumbersome, and ultimately the parking fee study was submitted to the City Council independently. Second, several fees were converted from hourly fees to a flat amount, which required extra analysis by the consultant to ensure the City was adequately capturing the appropriate amount with the fee.

Throughout 2009, the Board continued to review updates on the progress of the Cost Allocation and Fee Study.

PROPOSED 2010 ACTIVITIES

As of this date, the proposed 2010 activities for the Finance Board are:

- Continue to monitor the City's short-term financial stability
- Review all functions of the Finance Department and make recommendations to enhance efficiency and customer service, as appropriate
- Continue to learn from City department presentations in order to provide relevant, helpful and timely financial recommendations
- Pursue our normal Calendar of Activities (review of CAFR, etc.)
- Any activities as requested by the City Council

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SUMMARY

In summary, the Finance Board's charter is to serve the Council, and through the Council, the citizens of Huntington Beach. We welcome Council comment on our proposed 2010 activities and we look forward to working with the Council to address the City's financial challenges.

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EXHIBIT A: Finance Board Cost Savings Suggestions		
Item #	Suggestion	Response
1	Outsourcing Beach Operations Services.	
2	Market Rate Wage	This has been implemented on a pilot basis.
3	Social Programs – revisit cost/ benefit of the programs.	
4	Equipment/Vehicle Maintenance – Combine ALL fleet maintenance by all city divisions. Look into the costs of contract outsourcing for this work to be completed.	This was also an employee suggestion and is assigned to the Public Works Department.
5	Aero Bureau – Look at civilian pilots vs. sworn officers. Take a third helicopter off the budget. Only fly helicopters at night and maybe 24/7 during the three summer months when we have a large amount of people visiting to the city. Consider joint agreement with other cities. Consider outsourcing maintenance.	
6	Plan Check – Evaluate a non-sworn personnel vs. a sworn personnel to perform a plan check reviews.	This was included in Fire Department's 09/10 budget.
7	Outsourcing Maintenance Services – <ul style="list-style-type: none"> • Street Sweeping • Parks/Tree Maintenance – Partnering with school districts for city landscaping. • Streets Maintenance • Signs Maintenance • Signal Maintenance • Fleet Maintenance 	
8	What State laws can we take to the City lobbyist for potential reduction of staff time? Additionally, what City ordinances if modified would help departments reduce costs?	
9	Evaluate reducing the frequency of street sweeping.	This was also an employee suggestion and was assigned to the Public Works & Police Departments.
10	Look at conferences, trips, & training budget for each department.	This area has been drastically reduced for all city departments.
11	Reopen the current MOU's – Understanding the associations would have to agree with City Council to open up their contracts and re-negotiate benefits/wages.	This was also an employee suggestion and is assigned to the employee working group.
12	Change the MOU of the fire department to reduce staffing on City fire apparatus.	
13	Look at the clerical staff within each department – Administrative Assistants, Administrative Secretaries, and Office Assistants.	Staff at all locations are sufficient to the current needs and demand for service and staffing levels and will be evaluated during the current budget process.

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14	Increase parking prices at the beach for special events.	A Study Session was completed and City Council approved revised fees on June 15, 2009.
15	Consider a furlough program.	This was also an employee suggestion and is assigned to the employee working group.
16	Discontinue the issuance of paper checks.	This was also an employee suggestion and is assigned to the City Treasurer's Office.
17	Invoiceless processing for accounts payable.	This was also an employee suggestion and is assigned to the City Treasurer's Office.
18	Leverage procurement for prompt payment discounts.	This was also an employee suggestion and is assigned to the Finance Department – The Purchasing Division always asks a vendor for a discount for early payments. If the vendors agree, we put the information on the purchase orders. At the initiative and direction of the City Administrator, vendors were asked to provide a 10% reduction of their negotiated contract prices. Many vendors have stepped up and offered discounts. We are currently calculating our expected savings.
19	Outsource opening mail and processing in the City Treasurer's Department.	
20	Evaluate whether the City should charge more for credit card payments to recover bank fees.	This was also an employee suggestion and is assigned to the City Treasurer's Office.
21	Use a check reader for checks received at the City Treasurer's Department (Walmart uses these at their registers as an example.)	
22	Evaluate whether select permits may be purchased on the internet	Currently upgrading software; plan to have capability by Summer 2010.
23	Business license renewal over the internet.	Currently upgrading software; plan to have capability by Summer 2010.
24	Share expense of the crossing guard program with the school districts.	
25	Look at the Fire and Police Department sworn vs. non-sworn positions.	
26	Evaluate whether the City should be in the business of owning oil wells.	
27	Consider opportunities to reduce overtime in the Fire Department.	The Fire Department is taking steps to reduce overtime
28	Reduce staff in the Human Resources department.	
29	Two-tier benefits for new hired employees.	This was also an employee suggestion and is assigned to the employee working group.
Note: CalPERS – Current fiscal impact not felt for a minimum of three years to incur additional \$3 million cost for the next three years out of the General Fund.		